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DOUBLE-ENTRY BOOKKEEPING

IN ITS
SIMPLEST AND CORRECT FORM

By
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*A Public School Pupil will
understand the simplicity of the
language in which this is written.*

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CHAPTER I—INTRODUCTION

Bookkeeping is simply a record of transactions. In other words, it is putting down in black and white, details of dealings, in the way of doing business. Business is done usually on a credit and barter basis; that is, one person gives his goods in exchange for something else, usually in these modern days, for money, and a certain amount of time is allowed for payment, which necessitates entries being made of the transactions at the time of shipment, payment, etc., so that each individual transaction can be traced or checked up at any time. If all business were done on a cash basis, that is, payment made at time of purchase, there would not be any necessity perhaps, to keep these exact records, but as modern business dealings are practically all on a credit basis, it will be seen that Books of Record must be kept.

Double Entry Bookkeeping is the modern method of keeping accounts. The name explains itself; it is the method of making two entries of the same item so that one will check up and counteract the other, so as to avoid errors, one figure proving the other. In some schools, it is taught to make the two entries at the same time, but this is never done in modern commercial practice. On very rare occasions which will be properly explained herein, the two entries **are** made at the same time, but in practically all cases, only one entry is made at the time of the transaction and the second or **Double Entry** is made in bulk at a later period, usually at the end of the

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month when a Trial Balance is taken, which should prove all entries made since the previous Trial Balance. All these terms which are strange to a lay mind are fully explained in this book.

Double Entry Bookkeeping is one of the most simple practices in the world. It is merely a matter of knowing the method and following up same and automatically the books adjust themselves, provided every effort is made to avoid carelessness. The main thing is to understand the meaning of the transaction in making the entry.

It is suggested that the student read this booklet through slowly first, without any attempt to teach himself the science of bookkeeping, and study the little points that arise so as to get an idea of the principles involved.

It is advisable in following up the instructions in this book that the student uses for this purpose, a correct modern set of books as referred to throughout. It is better to learn and practice on the class of book that a bookkeeper will **have** to use in actual work, than on cheaper substitutes.

All students of bookkeeping must bear in mind that no matter how perfect a course is taken in bookkeeping, it is **practical** experience only, which makes a bookkeeper. It would not be fair to expect any student, no matter how perfect in course, to go right ahead and keep a complete set of books without some direction.

Of course, no one who is poor at figures, or finds figuring burdensome, should try to become a bookkeeper.

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For this reason, it is advisable in seeking a position after familiarizing oneself with this instruction, to seek one in an office where there are other assistants, so as to obtain the general office and commercial atmosphere and experience. In a very short time, with the knowledge already absorbed, added to the actual experience gained, the student should feel confident of taking a position as complete bookkeeper. We feel assured however, that the student who studies this instruction as diligently as he would have to, under an individual tutor or school, will be competent when through with same, to take full charge of a set of books of a small sized business. The writer of this book knows of the case of a man who had never handled a set of books in Double Entry in his life, but took a job as a bookkeeper, and, without experience, by following up the system already in vogue, made a perfect success of his job. Of course he was very correct in figures and quick to grasp the situations as they arose, and he made a successful "bluff." We do not advocate such "bluffs" at any time but the circumstance is mentioned as an instance of the actual simplicity of Double Entry Bookkeeping.

CHAPTER 2—THE BOOKS

The books required for Double Entry Bookkeeping are the following:

Cash Book—for entering all records of money (whether paid in by cash, check, money order, etc.), received; we mention this book first because in starting a business, the most natural thing is to first provide the money to run the business.

In this book also is entered all records of monies paid out for any purpose whatsoever. Sometimes an exception is made to this by omitting items drawn from the bank for petty cash purposes, of which, explanation will be given further on.

Purchase Book—for keeping records of bills for all purchases made.

Sales or Bill Book—for keeping a record of all sales (i.e., shipments) made.

Credit Book—for entering record of goods returned or allowances made on merchandise.

Customers' Ledger—for entering amounts from bills in sales book and payments when made on same to individual accounts, from Cash Book.

Creditors' Ledger—for entering to individual accounts, amounts of bills purchased, and details of payments when made.

General Ledger—(sometimes called **Private Ledger**)—for keeping records of all main details of a business such as total amounts of cash received and paid out, total shipments and purchases, and totals of all expenses incurred in running the business.

Trial Balance Book—for entering balance of ledger accounts at end of each month to prove the correctness of all entries.

Petty Cash Book—for keeping record of small expenditures such as carfares, postage, expressage, etc.

Pay Roll Book—for keeping record of salaries and wages paid.

Journal—this is a book which is used for special purposes only for making the double entry at the **same time** which we referred to in the Introduction, which occurs on certain occasions. This name must not be mixed with the **Day Book** or **Cash Book** or **Charge Book** or **Bill Book**, although some people call these books **Journals** at times, but the book we are referring to, known **as** the **Journal**, is printed specially, and used only for what are **known** as **Journal entries**.

There are other incidental books which are used in all businesses, but these would not go under the heading of Double Entry Bookkeeping, while used in conjunction with same.

CHAPTER 3—GENERAL LEDGER

(See Chapter 15.)

(Sometimes called PRIVATE LEDGER)

The following are the names of the accounts that are entered in this ledger. We mention these names here, although we shall not take them up in detail again until later, because we may have occasion to refer to some of these by name incidently and wish the student to know which accounts are specially separated from the others.

Accounts Receivable.	Inventory.
Accounts Payable.	Labor (Wages).
Bills Payable.	Light and Power.
Bills Receivable.	Machinery and Fixtures.
Capital Account.	Merchandise (Purchases).
Cash Account.	Merchandise (Sales).
Cash Sales.	Petty Cash.
Commission Account.	Profit and Loss.
Discount.	Rent.
General Expense.	Salaries.
Express and Freight.	Taxes.
Insurance.	Trading Account.
Interest.	

There are other accounts that arise according to the nature of each individual business, and these will be referred to later, in Chapter 15.

CHAPTER 4—NOTES

In this booklet, we have mentioned various kinds of technical terms which we have been careful to explain, but we are giving a few further explanations to help the bookkeeper.

General Ledger is known also as "Private Ledger."

Accounts Payable—also called "Creditors," refers to purchases.

Accounts Receivable—also called "Customers," refers to sales.

Posting—means entering from some **other** book to a Ledger.

Folio—means page number.

Debit—means "charge to" and is entered always, when in a ledger, to the left-hand side of the page.

Credit—means the reverse of "debit" and is entered always, if in a ledger, to the right-hand side of the page.

The words "Journal," "Day Book" and "Record," are frequently used indiscriminately to refer to all kinds of books for various purposes, but it is particularly advisable, till a bookkeeper is fully familiar with his profession, to use the terms employed in this booklet.

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CHAPTER 5—THE CASH BOOK

(Note that when the word "Cash" is used herein, it refers to any kind of money, whether checks, money orders, currency, (bills or coin), or whatever it may be.)

Receipts

This book is used for entering all receipts and disbursements. The left-hand sheet of the book, or the debtors' side, is used for entries of all monies received, and when the page is full, is continued on the next left-hand page. This page is usually headed "Dr—Receipts—Month and Year."

The right-hand page is used for all payments made, and when this page is complete, it is carried over to the next right-hand page. This page is usually headed "Cr — Disbursements — Month and Year."

The book which is used for a cash book is usually called a Columnar book, because it has a number of cash columns on each page varying from 2 to 12, or even more according to the nature of the business, and the preciseness with which it is desired to keep records. In a modern office, it is seldom that less than four columns are used, and as a rule, the book used has six or eight columns on each side. It happens sometimes that all the columns are used on one side while it is not necessary to use all on the other side. It is more likely that the full number of columns will be used on the disbursement side, while not so many are required for the receipt side.

For the purpose of making this Instruction book

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clear, we will consider that the set of books we have in mind to keep, are those of a manufacturing concern where the business is done by buying raw goods and making up same into certain articles. The same system would of course, apply if it were a business in which the goods were bought already finished, and sold, but that would not take us into wages and other items which it is absolutely important for the bookkeeper to understand. For this reason, we will take an eight column Cash Book for our example. On the receipt page, we will head the various columns as follows:

Net Cash.	General Ledger.
Discount.	Cash Sales.
Allowances.	Miscellaneous.
Accounts Receivable.	



8 Col. Cash Book.

That will leave one column blank which we will have no occasion to use, but this cannot be helped, and it will be found that the eight columns on the disbursement page will be all required and as these books are all made with an even number of columns on each side, we shall have to leave one column blank, on the left side.

The Columns.

Net Cash—In this column is entered the “net” or actual amount received, from any and all sources.

Discount—Enter here the discount that the house allows customer at payment of bills (See Discounts).

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Allowances—Enter here any special deductions made by a customer and deducted **at time of payment**, provided that same is allowed by the house and of which **no previous record** has been made. This would not refer to an allowance for goods returned, or a claim for shortage, but is intended to refer to allowance for expressage or freight which is sometimes made and allowed at time of settlement.

We now have three items: Net cash, discounts, and allowances, which should make the total of the face value of the bill or bills paid to house and this total should be entered in the next column, headed “Accounts Receivable.”

For explanation, we will take the face value of the bills at \$100.00 as sent out originally to the customer. In paying the bill, he deducts \$2.00 for discount to which he is entitled, we will say; 50c. allowance for express and sends his check for \$97.50. The entry now reads in order of the first three columns, \$97.50, \$2.00 and 50c. respectively, making a total of \$100.00, which is entered in the fourth or “Accounts Receivable” column.

This is the manner in which all bills, paid by customers are entered, so that you will see the term “Accounts Receivable” is just another way of speaking of the Customers in bulk.

Money comes into a house frequently from other sources, one of which is, borrowed money or loans, usually from banks. When money is borrowed, an acknowledgement is given, usually in the form of what is called a “note” which is a promise to repay

same at a later date, and these items are referred to in bookkeeping terms as **"Bills Payable."** In a case of money coming into the business in this way, for the sum of say, \$1,000.00, from which the interest (this word is explained later) of \$20.00 is deducted at time of loan, making the actual receipt \$980.00, the entry must be made as follows: \$980.00 must go in the column headed "Net Cash" (**this rule is never broken.** All Net Cash received goes in this column), \$20.00 should go in the "Discount" column. There are no allowances, and this is certainly not a payment by a customer, so nothing goes in the third or fourth columns but the sum \$1,000.00, goes in the 5th column under the "General Ledger" heading.

When you come to the Journal, you will find another method of entering this item of \$20.00, wherein it is treated as INTEREST, which it truly is; here we are taking it in the simpler, but not most correct manner (see chap. 14).

We will assume that this house does a certain amount of business for **cash** on delivery. In this case, the cash is counted up at the end of the day, and we would make this entry; the actual amount taken in, in the first column, and there being no allowances or discounts, same amount in the sixth column under "Cash Sales." If you were to take a pencil now and foot up these six columns, you will find the total of the **first three** columns equal the **totals of all the others.** In fact, they **must** do so and if they should not, it would mean that a wrong entry in one of the columns has been made.

There is the first instance of the Double Entry; all footings of certain columns equalling the footings of the rest of the columns, and this will continue at all times on this page of the Cash Book. We have not referred to the "Miscellaneous" column at all because that would only take in some extraordinary entry which might arise and for that matter might never arise, and which experience or handling of books would help the bookkeeper. We might mention one instance for example, in the case of an exchange where for some reason to accommodate a concern, you might give your check in return for theirs, or give them your check in exchange for some currency where there is actually no business transaction, in which case, the amount received would be entered in the first column and the same amount in the Miscellaneous column. When we come to the Disbursements, we will explain what would be done with the equivalent that you gave in exchange. So far, this takes in "Receipts," as same come into the house. These entries should be made daily on receipt, or within a reasonable time after. We have to take up later the entry from the Cash Book to the Ledger which is called "posting." Also the deposit of the monies received, to the bank, which will be explained in its proper place.

CHAPTER 6—DISBURSEMENTS

We now come to the “paying out” side of the Cash Book, the right-hand page in all cases. We have eight columns, which we will head in the following order:

Net Cash.	Wages.
Discounts.	Salaries.
Accounts Payable.	General Ledger.
General Expense.	Miscellaneous.

If the student has understood the receipt page of the Cash Book, it will greatly help him to understand how to use the Disbursement page. As most business houses make payments by check (except with petty cash items such as carfares, etc.), this page will be practically a copy of the stub of the check book from which the checks have been torn. Just as you enter on the receipt side one under the other, payments received, so you will enter on the disbursement side, payments made from the check book, one under the other.

Net Cash—Enter here the actual **net** amount paid.

Discount—Enter here any discounts that are deducted at time of payment. This refers to **Cash** and not **Trade** discounts. Trade discounts will be explained later.

Accounts Payable—This is another term for “Creditors,” a concern or party from whom material or merchandise is purchased, and in this column enter the **gross** amount (that is, the net amount added to the discount).

Should a check be drawn for a purpose which is distinctly an "expense," the net amount will go in the first column as a matter of course (never omit this first column), and the same amount will be put in the fourth column. Further on you will find some detailed explanation of General Expense (Chap. 15) as certain items which are a distinct expense to the business have yet to be kept entirely apart. We now come to columns 5 and 6, "Wages" and "salaries." Make a distinction between these two, wages being for productive labor or any service going towards the production of the article manufactured. This would take in the actual operators, foremen, forewomen, and superintendents in the factory although in very advanced bookkeeping, a distinction is made with these. The Salaries are for those in the executive department, such as office employees, shipping and packing employees, and those in general charge. When a check is drawn for the payroll, which combines all these people, the amount should be separated into Labor and Salaries (unless of course, separate checks are drawn), and the Net amounts put in the first column and the same amount in columns 5 and 6 respectively. If checks are drawn for any other purpose, the Net amount is put in the first column and again in the General Ledger column.

Miscellaneous column—This is to be used the same as the Miscellaneous column on the receipt page on similar occasions as referred to there, which may occur occasionally.

If you study this page so far, you will find that

the footings of the first two columns **added together**, equal the footings of all the other columns **added together** and should they not do so, it will mean that an error has been made in entering in the different columns or their footings and this error must be found as soon as possible. **The figures must agree.**

We have to take up later the entry from the Cash Book, of Disbursements to the Ledger which is called "posting" but we are only working so far on what are known as "Original Entries," those made at time of transaction.

CHAPTER 7

DEPOSITS AND WITHDRAWALS FROM BANK

All monies received should be deposited in the bank daily. For this purpose, the bank provides deposit slips and a pass book in which the clerk at the bank enters the total amount deposited. The proper way for the bookkeeper is to enter the checks individually, name and amount, on the back stub of the check book, listing one below the other, footing the total and carrying same out in a column that is usually provided for in the check book and adding same to the previous total deposits. This should be done **after**, not before, the receipts have been entered in the Cash Book. Then the bank deposit slip that the bank provides, should be filled up with name of the depositor, date, and then the amount of each check, item for item, one below the

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other, and footed. The correct order of doing this work, you will notice, is, first to enter the receipts in the Cash Book, then, when ready to make deposit, enter on the back stub of the check book, **then** make out the deposit slip, and send or mail to the bank in the usual way. If you study this procedure, you will realize in practice, that there is a motive for doing this in the order instructed. After making the deposit, it is a good idea to foot (in pencil), the Cash Book net **receipt** column, if not already done, and see if the total footing agree with the total of the deposits in the bank, because the total of the first net receipt column, should always agree with the total of the deposits in the bank, which is a second double check on the entries in both books.

As regards withdrawals, checks are drawn daily or as the occasion arises, when bills fall due or when money is to be withdrawn for any purpose whatsoever. Within a reasonable time after drawing check, same should be entered in the Cash Book on the Disbursement side as already instructed, and the net disbursement column should be footed in pencil and same should agree with the total value of the checks drawn from the bank as footed on the check book stub. This therefore, makes another check on the checks drawn and the net disbursement column. Should any of these figures not agree, the error should be found as soon as possible before closing.

Care must be taken at all times that the check

book is correctly added, both deposits and withdrawals.

The difference between the footings of the Net Receipt column and the Net Disbursement column of the Cash Book should always equal the balance in the bank, after the entries are written up-to-date and the deposit made.

Special Note: On the first of every month when the books are balanced (as is explained later), the balance of cash in the bank is always brought forward as the first item on the first of the new month, in the cash book, as a new page is started on the first of every month. This amount is entered in both the Net cash receipt column and the General Ledger column, and as the figures in the Cash Book are added up, this is included in the addition. This figure must agree with the balance shown in the check book, and as the total later deposits are entered, they are added to this balance, so that at all times, the Cash Book and the check book will agree.

CHAPTER 8—THE PURCHASE BOOK

This book is sometimes called the Purchase Journal, or Purchase Day Book, or Purchase Record, but it remains simply a purchase book, kept for the purpose of entering the amounts of bills purchased.

The book that is used for this purpose, also has columns, varying from two up to almost any number, usually about six. Sometimes it has been used with one column only, but in modern bookkeeping, this is no longer recognized as being up-to-date, so

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we will study it from the correct method, because it is very easy if one knows the modern method to follow up an inferior method, while if one only learns the inferior method, it would be perplexing to run up against a five or six column purchase book. This book follows up page after page, not like the Cash Book (in which the left page only follows the left-hand page and the right-hand page only follows the right-hand page). The page should be headed with the month and year and there will be found on the left-hand side of each page, a narrow column for the date of the month (which appears on all bills) to be entered. There will then be a wide description space in which the name of the house from whom goods are purchased, is entered. Then follow the columns. The amount of the bill must be entered in two of these columns. Take for example, a five column book in the average manufacturing business of, say, leather bags. (It makes no difference whether it is leather bags or suits of clothes or steel. The principle is the same.) We therefore head our columns as follows:

Merchandise (Leather).

Merchandise (Metal Parts & Trimmings).

General Expense.

General Ledger (or Sundry).

Total.

The proper way to use this book is to enter every bill that comes into the house, covering goods bought for manufacture, bills for rent, light and power, stationery, printing, and wrapping, in fact,

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anything and everything for which a bill is rendered, because in a sense, they are all purchases. This we say is the correct and precise way and some houses carry extra columns, headed accordingly to take in all these items. We shall take them in also, but shall carry many of them under the one heading "General Ledger." You will also notice that we have separated the Merchandise into two columns, being the two chief items used in manufacturing a leather bag. Some houses would not separate these and would put them together in one column under the heading "Merchandise"; while again other houses might have half-a-dozen columns for Merchandise, under various headings; Leather, Metal Parts, Silk Linings, Frames, and Sundry Merchandise, etc. The result would be the same ultimately, except that each of these columns would necessitate an individual account in the Private Ledger, to be headed in accordance with the heading in this Purchase Book.

In entering bills, which should be done daily, it is advisable that the bills should be collected together by the bookkeeper as they come in O.K.'d from the different departments, and sorted alphabetically. They should then be checked and entered one under the other down the page, with date, name, and amount. The amount in every case, without any exception, must go in the Total column, then in one other column, which the bookkeeper should know. If the bill is for leather goods, the amount will go under the column so designated. If it is for metal parts or trimming, it should go under

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that column. If it is for something which is distinctly an expense, not specifically separated in the General Ledger, it should go in the General Expense column, and if it is for anything else, it should go in the General Ledger column. These columns should be footed in pencil every few days and the totals of the first four columns must always equal the total of the last column. The total at the foot of each page should be written in ink and carried forward to the head of the next page and continued till the end of the month when a final entry must be made. Instructions for this will come under "Final Monthly Posting" (Chap. 17).

Posting the individual items from this book is explained in Chapter 13.

CHAPTER 9—SALES OR BILLING BOOK

This book is used for billing out to customers goods shipped, and there are a variety of systems of billing, but they all come down to the one result, of a bill for the customer and a copy to be kept in the house. The simplest form is to use regularly printed loose bills and a bound book in which an exact copy of the bill is entered, one bill after the other, as the shipments go out. Another method is to have the bills made up in a book with a second or duplicate sheet beneath. Carbon paper is placed between the bill and the duplicate, and as the bill is written out the exact copy remains beneath; the bill is then torn out of the book which

is perforated for that purpose, but the copy remains permanently in the book. The advantage of this is, that it saves making a separate copy of the bill for the house record.

There are other ways of billing, more or less on the same principles, some by typewriting a bill with the duplicate sheet below, others by using billing machines, but the principle does not change in any way. It all comes back to the final result that an original bill goes to the customer and a copy remains in the house, either in a regular bound book, a special bound book, or a loose leaf book. The nature of the system does not affect bookkeeping in any way.

The bill (or invoice), is usually printed in such way as to leave room for writing in the name and address of the customer, date of shipment, terms on which goods are sold, order number, department, etc., all of which information is usually given to the bookkeeper by the order or shipping department. Below this heading, the bill (or invoice), is ruled off in columns for the number, quantity, description, price, extension, and total. Billing out goods is very simple and needs only care and correctness, and the following up of the system in vogue.

We will take up posting from the Sales Book to the Ledger later, under "Posting" (see Chap. 12).

[illegible]

A two-column book variously called "Journal," "Day Book," "Cash Book," "Record" or "Single-Entry Ledger."

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CHAPTER 10—CREDIT BOOKS

A Credit Book is used for the purpose of entering allowances made to customers, or claims made on creditors for any purpose whatsoever, such as shortages, damages, goods returned, and allowances of such sort. For this purpose, two separate books should be used, one for customers and one for creditors, but sometimes a single book is used; the front half being used for the customers and the back of the book for creditors, which is practically the two books in one, but of course each list must be kept entirely apart. The entries are made in this book exactly in the same way as goods are billed out in the Sales Book, and as purchases are entered in the Purchase Book, one name after the other according to dates, as the claims arise, and details of the claims or allowance should be entered in full in the space which is provided in the book. These should be footed daily and carried forward till the end of each month, when a disposition is made of same, which is referred to later. When we come to "posting," we will explain how these are posted on the opposite side of the Ledger to the items in the Purchase Book and Sales Book (see Chap. 12 and 13).

CHAPTER 11—CUSTOMERS' LEDGER

The modern ledger is a loose leaf book, whereby sheets can be inserted in any position in the book and which runs alphabetically, which makes it so much easier to locate an account at all times. Bound ledgers are also used considerably but the loose leaf ledger is far more popular. The books are the same in ruling, the only thing being that a bound book has so many pages and no more, and when it is all used up, a new book has to be opened and all the balances from the old book transferred. With a loose leaf book, this is avoided, because when a customer's sheet is full on both sides, a new sheet can be inserted right next to the old one, so that the account can continue indefinitely for years. When a loose leaf ledger gets too full and no more sheets can be inserted, all the very old sheets can be taken out and put into what is called a "Transfer Binder," leaving the live or active accounts still in the ledger.

The ruling on a ledger sheet is in double form, that is to say, it has a date column on the left, then a description space, then a folio (or page number) column, then a cash column. This takes up half the page from left to right, and the whole thing is repeated on the right half of the page so that the form is double. The left-hand side is known as the "Debit" side, and the right-hand side as the "Credit" side. Everything that goes **out** of the house, whether money or merchandise, ultimately goes to the "debit" column, and everything that **comes in**,

merchandise or money, to the "credit" column. The heading usually has spacing for the name and address of the customer, terms on which sold, and other information, which houses at times make use of, such as account number, rating and so forth.

In a loose leaf ledger, only one account should be put on a sheet, and the one name on both sides; not a different name on the back. The sheet should be reserved for one name only, so that when the two sides get filled up, a new sheet can be inserted and follow straight on.

ENTERING ITEMS IN A LEDGER FROM ANOTHER BOOK IS CALLED "POSTING."

Shop No. _____	NAME	Address No. _____
Town _____	ADDRESS	
Street Light _____		

DATE	ITEMS	Folio	CREDIT	DATE	ITEMS	Folio	CREDIT
FORM A — DOUBLE-ENTRY-LEDGER							

Loose Leaf Ledger Sheet (Double Entry). Same ruling is used in bound books.

CHAPTER 12—POSTING TO CUSTOMERS' LEDGER

If you will refer to the chapter on **Sales Book**, you will see that we have therein a record of bills for goods shipped to customers. These items have to be "posted" in this ledger; open the ledger at the customer's account, or if it is a new customer, take a new ledger sheet and write his name on top and other information for which space is provided. The date of the bill then goes in the first column on the left; in the description column, write the words "To Mdse.," then the folio from the Sales Book, such as "S26" or "S45," which will show that it comes from the Sales Book, and then the amount in the cash column. This shows that the customer owes the house so much money for goods sold, and if it is ever necessary to look up the details of this item from the Ledger, the Sales Book folio will tell you on which page of the Sales Book you will find all the details. This is done with every charge in the book, one after the other. This entry is known as a "debit" (posting to the left column).

We now come to the "credit" side of this customer's ledger account. Now remember, that the term "**Accounts Receivable**" is another name for "Customers," in fact this ledger is known as either "Customers" Ledger, "Sales Ledger," or "Accounts Receivable" Ledger, which all mean one and the same thing. Take your Cash Book daily and open it at the receipts that have come in, which are not

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yet posted. Turn to the account in the ledger of the first check received, and enter, from the Cash Book to the ledger as follows: On the right-hand side in the space provided, Date; "By Cash;" folio; "C10" or "C15" (to show the entry comes from the Cash Book), and the amount that appears in the Cash Book under the column headed "Accounts Receivable." This entry is called a "Credit" entry. This item should balance with some or all of the items in the left-hand column, according to whether the customer has paid all bills owing or some of same only. As these entries are made in the ledger on the debit or the credit side, a check mark of some sort should be placed against the item in the Sales Book or Cash Book, just to show that it has been posted, so that the bookkeeper will know where to start to post next time.

We also have to consider posting the Customers' credits from the Customers' Credit book and this is done in exactly the same manner as with the Customers' Sales Book except that being a return or allowance of some sort, the amount has to be entered in the credit or right-hand column of the ledger, just as the payment is. It may happen in such a case, that the customer owes bills amounting to \$500.00 on which there has been a return of \$50.00, leaving a balance due of \$450.00. When the goods were returned, the entry would have been made in the credit book and credited at that time to the customer's account, so that when the payment is made some time after, the bookkeeper would find in opening the ledger to post the cash, the \$50.00

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already entered, so that by making an entry of \$450.00, the entries in the credit column will balance exactly with those bills in the debit, amounting to \$500.00. It is advisable to check off the items in the debit column that balance with those in the credit column.

Sometimes one cash entry pays several debit entries, and a good way of checking these off, is to use the letters of the alphabet in this manner: starting with A, write the letter "A" very small, against **all** the bills that are paid, and the same letter A against all the items that settle these bills, whether it is simply one cash item or a cash and a credit item. Usually there are more entries in the debit column than in the credit column, as concerns frequently pay several bills with one check. But irrespective of that, all entries should be made immediately under one another, even if one column on the page is filled up long before the other.

This practically covers everything that has to do with a Customer's account from beginning to end.

CHAPTER 13—CREDITORS' LEDGER

This ledger, known sometimes as the "Purchase" Ledger or "Accounts Payable" Ledger, is similar in every way to the "Accounts Receivable" Ledger, and the explanation in the Introduction to the Customers' Ledger covers this alike, except that the entries are reversed. Turn to the chapter, "Purchase Book," and you will find you have entered a number of bills purchased, in this book. When posting to the Creditors' Ledger from the Purchase Book, turn to the account in the ledger and enter on the right-hand side of the page, the date; "By Mdse.," in the descriptive column; the folio; "P12" or "P16" (to show that same comes from the Purchase Book), and the amount. This practically reverses the entry that is made in the Customers' Ledger, which, if a little thought is given thereto, it will be seen, must be correct. The ledger account now represents the amount owing to the creditor for goods purchased. Now check off the item in the purchase book in the same way, to show it has been posted. That is all that goes in the credit column of this page, but this must be offset later by a debit, representing a settlement of a bill or bills. Open the Cash Book to the first item not yet posted on the disbursement page (remember this only refers to items in the column headed "Accounts Payable," no others), make an entry from the Cash Book to the ledger on the left-hand or debit side as follows: "Date;" "To Cash;" "Folio, C10 or C20" (to show it comes from the Cash Book), and the amount that

appears in the "Accounts Payable" column in the Cash Book. If there have been any claims, returns or allowances in the Creditors' credit book, they will have been entered or should be entered in the same column, except that you write the word "To Mdse." or "To Allowance" instead of "To Cash." You will find then, the payment and the allowance (if there is any), will balance exactly one or more bills in the credit column and the same principle of checking with letters A to Z, as is recommended in the Customers' Ledger, should be used here, but these letters or any check mark should never be used unless the items of each side, **balance exact to the cent.**

Both Creditors' and Customers' ledgers should be footed in pencil at least once a month, while it is considered a good idea to foot them this way when a settlement is made: when either column of the page is full, the footing should be in ink and carried forward to the next page.

CHAPTER 14—JOURNAL

This book is used when the two entries are intended to be made at the same time, one entry offsetting the other. The book that is usually used for this purpose has six columns, but is different from the usual six column book, being printed with three columns on the left of the page, a wide space in the center for explanation, and three columns on the right-hand side of the same page. The items in the left three columns are what is known as "debit" items and are posted to the ledger in the left-hand or debit column. The items in the three columns on the right of the page, are posted (that is, entered in the ledger), in the right-hand ledger column, which is called the "credit" column. We have already come to the ledgers, so that you will understand what is meant by these terms. The items that go into this Journal, are records of what can be called "transfers" where no actual dealings for the moment have occurred. The columns are headed as follows: Accounts Receivable, Accounts Payable, General Ledger on the "debit" or left-hand side, and on the "credit" or right-hand side, General Ledger, Accounts Payable, Accounts Receivable.

Examples of Journal Entries.

We will presume that the house has purchased some goods from a concern to whom it is in the habit of selling as a customer, and that this customer owes them more than the amount of the bill purchased from them. Of course, when the goods were

shipped to the **customer**, the item went into the Sales Book, and when the other goods were purchased from this customer (by which transaction the customer became a creditor **for this item**), the bill for these goods went into the Purchase Book. Now we have a case of money owing from each one to the other, and we will say that when the customer paid his bill, he deducted the amount that the house owed him for the goods he sold them, and sent them a check for the difference. This check was entered in the Cash Book in the usual way and credited to the customer's account. Here is now this situation. The customer has paid all he owes. Yet in the customer's ledger there is a balance open because he has taken off what the house owes him, while the purchase or creditors' ledger shows that the house still owes this man money, because no direct payment was made to him. The two items will balance one another, but as they are in two separate ledgers, how are they to be brought together to balance? It would be easy to write down against each amount "Paid" and balance it that way, but that would throw both ledgers out of gear and it would simply be "forcing" the books, and while the facts would be correct, the method of entering would be entirely wrong and would mix the books up later.

This is where the Journal comes in. We have to "debit" the creditor (as a creditor), with the amount in the creditors' ledger and credit him (as a customer) in the customers' or sales ledger. We make an entry therefore in the Journal as follows:

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on the debit side, under "Accounts Payable," we enter the amount that is open and the same amount on the credit side of the Journal, in the column headed "Accounts Receivable," and in the center description space, we write something to this effect: "Transfer of item purchased." We then go to the creditors' ledger and in the space provided, debit same, entering this date, the Journal page number in the folio column, and the amount, and we will then find that this creditors' ledger account is in balance. We then turn to the customer's or Sales ledger of this same account, and enter there on the credit side of the ledger sheet, the date, folio, number and the amount, which will also balance the customers' account. In entering the folio or page number, it is advisable to write in front "J," such as J10 or J16, so that we know at a glance it is page 10 or 16 of the Journal. This would be the only correct way of balancing these two accounts in the ledger.

Another example: We will presume naturally that this house employs a number of salesmen to sell its goods and pays them a percentage, or what is known as commission, on the goods sold. This is usually figured up once every month, sometimes at other periods, according to the rules of the house, and when the amount of commissions that has been earned (no matter if **PAID** to him or not) by each salesman, has been figured, an entry has to be made in the ledger through the Journal. It is the usual practice to give every salesman a page in the ledger under his name, and as he has **earned** this money,

it goes to his "credit." Remember the word "credit" means entering on the right-hand column of the ledger, just as the word "debit" always means entering on the left-hand column of the ledger.

It has been found that a certain salesman has earned in commission \$100.00. We have to credit him with \$100.00 and have to charge naturally, the commission amount, and as both these amounts are in the General Ledger, we make in the Journal, entry as follows: In the left-hand General Ledger column, we enter \$100.00 and the same amount in the right-hand General Ledger column. In the description space, we write to this effect: "commissions earned" and then give details of what the commission is, period covered, and the total sales less any deductions, and the rate of commission. Then open the General Ledger to the Commission account and debit (that is, enter in left column), the amount \$100.00, writing in date and folio, then turn to the salesman's account in the General Ledger and credit him (or enter in the right-hand column), the date, folio and the amount, \$100.00. The Commission account will then show what it has cost the **house** in commissions, and at the same time, will show how much the salesman is entitled to.

When any money is given to the salesman, either on account or in full, for this commission, that entry will go in the usual way from the check book to the Cash Book, and from the Cash Book to the left-hand column of this man's account, which will show on the left-hand side what he has drawn in money, and on the right-hand side, what he has

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earned, so that it can be seen at a glance how much more he is entitled to, or whether he has drawn more money than he has earned. The Journal is used for purposes similar to the above, where no actual selling and buying transactions take place at the moment. It is also used most particularly at time of Inventory, for which instructions you will see under "Closing Books at Stock Taking" (see Chap. 28).

The diagram shows a table with a header row and a body of 10 rows. The header row is divided into six columns of varying widths. The body of the table is divided into the same six columns, with the first and last columns being wider than the others. The table is drawn with thin lines, and the columns are clearly defined.

6 Column Divided Journal.

CHAPTER 15—GENERAL LEDGER

(Sometimes called PRIVATE LEDGER)

(Read This in Conjunction with Chapter 3)

In our page headed "The Books," you will see an explanation of the purpose of this ledger and in chapter 3 a list of the various accounts in same. We will just run over these accounts and tell you the purpose of each and will then explain how posting is done to this ledger.

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Accounts Receivable—this, as explained before, is another name for Customers', and this account will show in "bulk" (or total) how much all the customers owe at the end of each month, whereas the Customers' Ledger shows each individually.

Accounts Payable—This is another name for Creditors and will show how much is owing to creditors in bulk at the end of each month, whereas the Creditors' Ledger shows each individually.

Bills Payable—this is a term that is used to refer to what is owed for money borrowed, for which usually a paper called a "promissory note" is given, which contains a promise to pay same on a certain date.

Bills Receivable—is just the reverse of Bills Payable, and refers to money loaned by the house to others.

Capital—this refers to the investment in the business, and includes usually the original money that started the business, plus all profits that have been made, less all deductions, withdrawals of profits, and losses. It is balanced at time of Inventory, which is usually done once a year and should represent on that date, the exact value of the business after all Liabilities have been deducted from the Assets.

Cash Account—this should show the balance in the bank at the end of each month.

Commission Account—this will show the bulk amount of commissions earned by the various salesmen or agents of the house.

Discount—this will show on the debit side, the amount of cash discount (in bulk or total) taken by

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customers in paying their bills, month by month, and, on the credit side, the amount of discount gained by the house in paying **their** bills, month by month. Some houses keep separate accounts for these.

General Expense—(See end of this chapter).

Express and Freight—this should show in bulk, month by month, the expenditure for expressage, freight and cartage incurred.

Insurance—here is entered the amount of premiums paid on policies for insurance carried on stock, fixtures, machinery and all other kind of insurance.

Interest—this will show the amount of interest incurred or gained from borrowing or lending money. Interest is distinct from discount, although sometimes they are put under the same heading, from the fact that a discount is what is given at time of payment of account, while interest is what is paid for the use of money borrowed, or loaned.

Inventory—Herein is entered the value at cost or replacement, of all merchandise on hand. This figure is only taken at time of stock-taking (once a year usually).

Labor (wages)—this will show in bulk the amount of wages paid out month by month.

Light and Power—the amount spent for lighting, heating, and power to work the plant.

Machinery and Fixtures—herein is entered the purchase price at time of purchase of all machinery and fixtures, and is subject to a depreciation at time of stock-taking, at which time, after depreciation,

it should show the then market value of the plant and fixtures.

Merchandise (Purchases) and Merchandise (Sales)—herein are entered in bulk respectively, month by month, the amount of merchandise bought and sold, less credits, allowances and returns.

Sometimes, as explained in Chapter 8, the purchases are sub-divided into two or more sections.

Rent—herein is entered the amount paid in rent,, month by month, or as incurred.

Salaries—herein is entered amount incurred for salaries during the year, month by month.

Taxes—herein the amount spent in taxes, as incurred.

Trading Account and Profit & Loss Account—these will be explained under heading “Closing of books at stock-taking” (see Chap. 28).

Petty Cash Account—this should show the amount of cash **on hand** at the end of each month.

General Expense Account—herein are entered various expenses which are not separately entered under other headings mentioned herein. Some of the previous headings are truly expense, but it is considered necessary to keep them separate and distinct from the **General Expense** account. This account will contain petty cash items such as car-fares, stamps, stationery and odds and ends, but some houses often make separate accounts for stationery, wrapping, even carfare, but if a bookkeeper gets to the stage of understanding keeping a General Ledger, as outlined above, the rest is only a matter of routine in opening more or less accounts.

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Expenses such as telephone, telegrams and cables, legal fees, etc. are frequently posted with the general expense items, but some houses keep separate individual accounts in the General Ledger for same, in which case, the bookkeeper treats them as all such similar individual accounts.

CHAPTER 16—POSTING INTO THE GENERAL LEDGER

So far, the posting that has been required, is current work which should be done daily, but with the General Ledger, there are only a few items that have to be posted daily, and the majority of the entries are made at the end of the month, and these entries which are made at the end of the month in **bulk**, are the second or **double** entry to prove all the other entries of the month. You will note in the Cash Book on both pages, Receipts and Disbursements, a column headed General Ledger. The items in those two columns should be posted daily to their proper accounts in the General Ledger, those on the receipt side of the Cash Book being credited in the ledger, and those on the disbursement side, being debited in the ledger. Instances: you might find on the receipt side an item of \$5,000.00 borrowed by the house from the bank. This, as we have already explained, comes under the heading of Bills Payable, and this amount therefore, will be credited in the General Ledger, under

the Bills Payable account. On the disbursement side, you may find a similar amount which has been paid out in settlement of this loan or some other loan, which has been entered previously in the ledger when borrowed. This item should be **debited** to the Bills Payable account. You may find other items; let us say, the payment to a salesman on account of the commissions he has earned, as salesmen often draw money in advance before their accounts are figured up. This would have to be debited to the salesman's account in the General Ledger. We have not spoken of these salesmen's accounts when we mentioned the headings in the General Ledger, because that is an individual practice of a business house, and does not always apply. Some houses do not pay any commission at all, but only straight salaries, but where there are salesmen on commissions, it is necessary to open an account for each man in the General Ledger, and use the account in the manner that has been mentioned above.

There might be an item in this column for "Traveling Expense," in which case an account should be opened in the General Ledger for Traveling Expense and this item debited there. This bears out a previous assertion made herein, that everything going **out** of the house, whether cash or money, is debited, and everything **coming in**, is credited in the ledger, and if the method of entries of Sales, Purchases, Returns, and Credits, are studied, you will see that this rule is never broken. The only other entries that have to be made daily (or as they arise)

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in the General Ledger, are those in the Journal, which we have already taken up. Other entries to go in the General Ledger, are made at the end of the month, after all the charges, purchase bills, credits, etc., for the month, have been posted to their respective places. It is then necessary to make the closing **monthly** entries before taking off the Trial Balance. It is first necessary to add up all the books; Cash Book (which must prove as instructed in the "Cash Book" instructions), Sales Book, Purchase Book, Credit Books, and Journal. When all the books are footed, proceed as follows:

Take the Cash Book first: Add to the final figure of the Net Cash Disbursement column, the balance in the bank, and this total then should equal the total Net Cash Receipt column. If the bookkeeper has been adding these columns with pencil as instructed all along, it should come out correctly very easily. Then be sure that the footings of the first three receipt columns, added together, equal the footings of all the other receipt columns, added together; also that the footings of the first two columns on the disbursement page equal all the footings of the rest of the other columns, added together, of the disbursement page. Do not pass this unless they prove, and there is **no excuse** for same not doing so.

Having proved this, go back to the first column, "net receipts" and from the total, deduct the balance that was brought forward at the **first** of the month **just ended**, which, as has already been instructed, was entered on the first line of the month.

The result of this deduction will show the **actual cash receipts** for the month. Now take the General Ledger and open same at the Cash Account. Debit this account with the amount that we have just found, the net cash received during the month. Make the entry as follows: "Date," such as May 31st, "cash," and then the amount in the cash column. Check off this amount in some way to show that it has been entered. Then take the total figure of the first column of the disbursement page, that is, the figure that you had **before** the balance in bank was added, and credit this to the Cash Account. If you now foot up the Cash Account in the General Ledger, on both sides, and deduct the credit side from the debit side, you will find the difference will equal the balance in the bank.

The next column we come to is Discount. Open the General Ledger at the Discount account and **debit**, in similar fashion, the amount from the receipt page of the Cash Book and **credit** the amount from the disbursement page. Then check that off in the Cash Book.

We next come to the Allowance column, and that should be debited to the Merchandise Sales Account, because these are really deductions allowed on the price of goods sold and are a loss to the house. The next column, "Accounts Receivable," should be **credited** to the account in the General Ledger called "Accounts Receivable." The next column which is headed General Ledger, does not have to be entered at all, just check off, as this column has been posted individually during the month. Same applies to

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the Miscellaneous column. We have the Cash Sales column, the total footing to be **credited** to the "Cash Sales" account in the General Ledger. Not all houses have Cash Sales, however.

NOTE THAT ALL THESE ENTRIES REFER TO THE FINAL FOOTINGS AT THE END OF THE MONTH.

We now come to posting the final footing at the end of the month from the Disbursement page. We have already mentioned what should be done with the "Cash" and "Discount" column. We then come to the "Accounts Payable" column which should be **debited** in the General Ledger to the account, called "Accounts Payable," the "General Expense" column which should be debited to the account headed "General Expense," the "Wages" account which should be debited to the "Labor (Wages)" account, the "Salaries" account to be debited to the "Salaries" account; the next column, "General Ledger" is to be checked off and not entered anywhere, and the same instruction applies to the Miscellaneous column. This will close the Cash Book for the month entirely.

CHAPTER 17—FINAL MONTHLY POSTING

We return to the Purchase Book and at the same time to the Purchase credits. Do not confuse these with the Sales or Customer's credits. Take the footings of the purchase credits and deduct the same, each in its proper column, from the totals of all the purchases which will then leave the net purchases of the month and proceed as follows: Debit the total of the first column to "Merchandise Leather Purchases;" debit the total of the 2nd column to "Metal Parts and Trimmings," the total of the third column to General Expense. We now come to the fourth column which is made up of a variety of items, and these have to be dissected before you go further. You will find herein rent, light and power, insurance and perhaps other bills. There may be some carting or freight bills among them. Dissect these at the foot of the page, one under the other, "so much for rent," "so much for light and power," "so much for freight and cartage," and whatever else there may be, and **debit** each amount separately to the account under the same name, in the General Ledger. **Be sure that the total of these individual items agree** with the footing of the column. The last column which is headed "Total," should be credited to the account in the General Ledger called "Accounts Payable." There you have an instance of Double Entry right before you, because the first four columns are all debited, and their total equals the last column, which is credited.

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Now take the Sales Book. First deduct from the total sales the total amount of customers' credits, which will leave you the net amount of shipments for the month. **Credit** this amount in the General Ledger to Merchandise Sales, and debit same figure to "Accounts Receivable." Next take the Journal with the three columns right and three columns left. Foot all these columns. The total of the three on the left together, should equal the three on the right together, and there must be no deviation from this. Check off the two columns which are headed General Ledger, as no entry is to be made from these. Open the General Ledger at the "Accounts Payable" account, and debit same with the total of the column on the left-hand (the debit column) of the Journal, which is called Accounts Payable and credit this account with the total of the right-hand column, which is also headed Accounts Payable. Then do the same thing exactly with the footings of the two columns headed Accounts Receivable in the Journal, to the "Accounts Receivable" page in the Ledger.

CHAPTER 18—PETTY CASH BOOK

This is a book we have not spoken of before, but it has to be attended to before we can make our Trial Balance. Usually a book with 4 to 6 columns is used, in which the daily small cash expenses are entered for stamps, carfare, expressage, and odds and ends. The columns are usually headed General Expense, Express and Freight, General Ledger, Total. The small expenditures should be entered herein daily. The amount in all cases of the total column should balance with the other three added together. It is the correct practice to draw a certain amount of cash from the bank when the cash is low. When the check is drawn, the check should be entered in the Cash Book on the disbursement page in the regular way: the amount in the net column, also the General Ledger column, and from the General Ledger column of the Cash Book, it should be debited to the Petty Cash account in the General Ledger. On the left-hand page of the Petty Cash book, the amount drawn should be entered, and all the payments should be on the right-hand page, in the four columns already mentioned. This book should be balanced with pencil footings every evening before closing and the money in the Cash box checked, to see if same agrees.

At the end of the month, footings should be made in ink and deducted from the money drawn during the month, and balance carried forward to a new page, as soon as it proves correct with the money in

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the cash box. No entries are made from this book to the ledger during the month, but at the end of the month when all the books are closed, proceed as follows: the footing of the first column should be debited to the Expense account in the General Ledger as follows: "Date;" "the letters P.C. so as to show it comes from the Petty Cash book;" "folio," and the amount. Debit the total of the second column in the same manner, to the Express and Freight account. Dissect the third column, the same as instructed with the column in the Purchase book which had to be dissected, and debit each total separately to its General Ledger account. **Credit** the total of the last column to the Petty Cash account of this Petty Cash account in the General Ledger, and the difference between the two columns should agree with the cash box. No allowance can be made for same not agreeing.

If more than four columns are used, it means so many more dissections of cash outlay, and is treated similarly to above.

The books are now all ready to take off a Trial Balance.



The diagram shows a ledger page with five columns. The first column is the widest and contains vertical lines for entries. The second column is narrower. The third column is the narrowest. The fourth and fifth columns are of medium width. The bottom of the page is filled with a grid of small squares, representing a ledger page with many rows.

5 Col. Petty Cash Book.

CHAPTER 19—TRIAL BALANCE

Now, when all the final entries at the end of the month are posted, it is necessary to take what is called a Trial Balance. For this purpose, the bookkeeper must go through the entire three ledgers, footing all the debits and credits in pencil, one account after the other, and deducting one from the other, usually writing the balance in small pencil figures at the side of the column, on the ledger page. These figures will show (from the customers' ledger) what each customer owes on the last day of the month, and from the creditors' ledger, what is owing to each creditor, and from the General Ledger, it will show on each account, either the debit or credit balance. Then take the Trial Balance Book.

For this purpose, any two column book will do but as this balance is made at the end of **every** month, naturally a greater proportion of the same names appear each time, and a regular Trial Balance book is used as a rule, with six double or with twelve double columns. At the left, there is usually a folio and a name column, then come the six or twelve double columns. The double column is used because some of the items are debit items and some are credit items. For instance, all the customers' balances would go in the debit column; all the creditors' items in the credit column, and the items from the General Ledger would go some in either column.

Take the General Ledger always first. Start

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from the first page and go right through the entire book, and enter the debit or credit balance, whichever it may be on each ledger page, to the Trial Balance Book. For instance, the Accounts Receivable page will always show more on the debit than on the credit side. Consequently, the balance will be entered in the Trial Balance book in the debit column. The "Accounts Payable" ledger sheet will show the reverse balance, and this will be entered in the credit column of the Trial Balance book. The Cash Account will be a debit item, while the Merchandise Sales account will be a credit item, and so on.

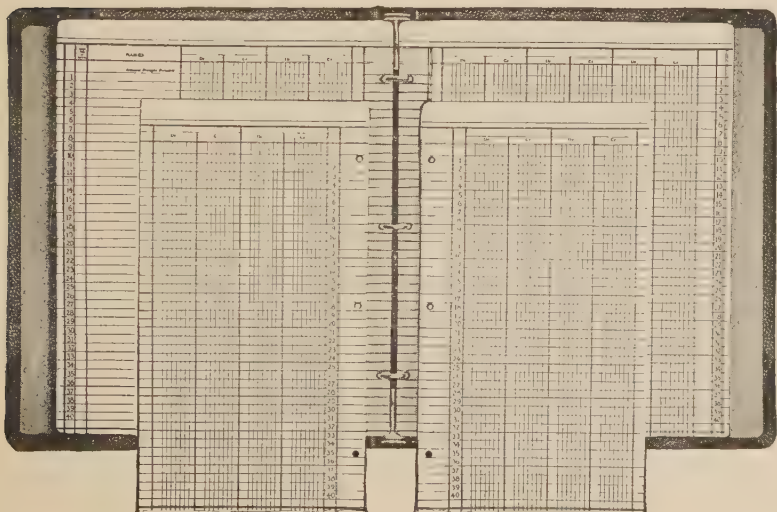
When all the balances are entered from the General Ledger to the Trial Balance Book, the two columns of the Trial Balance Book should be footed, and be equally exact. Should they not be so, it will mean that there is some error in the books either in taking off the Trial Balance or in making some entry during the month, and this should be located before going further. The two columns **must** agree to the cent. When you have proved this, copy the balances from the customers' and creditors' ledger respectively into the Trial Balance book, and foot same separately. Footing of the customers' balances should equal **exactly** the balance in the General Ledger under the heading of "Accounts Receivable," and the footings of the creditors' ledger should equal the balance of the account in the General Ledger, headed "Accounts Payable." They **must** balance **exactly**; if not, there has been some error made either in taking off the balance, or in

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footing the ledger, or posting during the month which **must** be located.

The two accounts in the General Ledger, "Accounts Receivable" and "Accounts Payable," are known technically as Controlling Accounts, because their balance at the end of each month shows in bulk what the total of all the individual accounts of the customers and creditors respectively are.

If the bookkeeper can do all that has been instructed so far, he is a pretty good Double Entry bookkeeper.



Loose Leaf Trial Balance Book.
(Bound Book is Identical in Form.)

CHAPTER 20—STATEMENTS TO CUSTOMERS

Most business houses are in the habit of mailing customers statements on or about the first of every month, showing all the unpaid items on the book against them, with the total of what they owe to date. This is usually done after the Trial Balance has been proven. The statement is a printed form, which has a space for the name and address of customer and terms, with date column and cash column, and the proper way is to list unpaid items one under the other, from the ledger, deducting at foot, any credits or claims that have been allowed and showing the final balance at foot. Although this is a general custom, it is not always strictly adhered to, as some concerns do not send out statements until the account is "due," by which is meant, that the time has come when the bills should be paid, according to arrangements made at time of selling. All these things depend on the rules of the house. The bookkeeper must make himself familiar with these rules, and learn when to send a statement and when to send out a second one, or letter drawing attention to the fact that the account is due, and has not been paid and so on. This gives very practical working knowledge.

CHAPTER 21—PAY ROLL

The bookkeeper is usually expected to make up the pay roll or to instruct a subordinate to do so. There are several kinds of books provided for pay roll; some have columns for the six days of the week to show whether the employees worked each day, when they are paid by the week, and others have different systems which depends on the custom of the house. The bookkeeper must make himself familiar with those customs and follow up the system. It may be that a list will be handed from the factory superintendent to the bookkeeper, showing the number of hours or days and the rate per hour, day or week, for the employee, or some kind of working ticket, showing the number of items that the employee has made, and the price for same. The bookkeeper must make the entry in whatever form is used, and enter the names in the book provided, foot up same, see that a check is drawn in ample time to put the pay in the different envelopes for the help, and in all ways work to see the pay roll is ready at the proper time.

CHAPTER 22—CASH DISCOUNTS

Most business houses give a cash discount to their customers at the time of paying bill. This usually varies from 1% up to 10%; in addition to which, a certain time is given for the customer to pay this bill to take advantage of the discount. If the terms for instance, were 1% 30 days, it would mean that the customer has 30 days from the date of the bill to pay this account, and he may then deduct 1c off every dollar when paying; if the terms are 1% 60 days, it would give the customer 60 days after the date of the bill to pay same and to take his 1% discount. Should the terms be 1% 10 days, it would mean that the bill should be paid 10 days after its date, less 1% discount; if the terms should be 1% 10 days 30 days extra, it would mean that the bill is due 40 days after the date of same, less 1% discount.

The same meaning would attach to any other discounts; 2% 10 days 60 extra, would mean, for instance, the bill is due 70 days after the date of same, less 2%, and as the average business month is generally accepted as 30 days, a bill of \$100.00, dated May 5th, on which the terms are 2% 10 days, 60 extra, would become due (that is, should be paid) on July 15th, less 2%, or \$98.00 net.

Most houses have their own methods of dealing with customers who go beyond the dating or number of days given, and then pay their bills and take off discounts. Some houses insist that should their

customer not pay the bill at the time limit, they will not allow them any discount whatsoever; others are not perhaps so particular but herein it is necessary to follow the principles of the house, because house rules are important to adhere to.

CHAPTER 23—TRADE DISCOUNTS

The **trade** discount should not have much to do with the bookkeeper, but it is mentioned here because it is well for a bookkeeper to know what it means. Merchandise is frequently sold, in fact, more often than not, to the middle man or jobber, who has to sell again before the article reaches the public. Some manufacturers put a price on an article, at which it is suggested by them it should be sold to the public, but of course their customers have to make a profit, and the manufacturers must therefore give them the article at a lower price than they quote for the public, and they therefore in such cases, give their customers what is known as "Trade" Discount which varies from any percentage up. Buyers in different trades, of course, know what these discounts are, and when a price is quoted to them by the manufacturer, they deduct the trade discount, and get their net cost. In some trades, the trade discount allowed is very small, in other cases it runs as high as from 50% to 75%. A bookkeeper must watch all bills that come in the house for purchases, where trade discounts are allowed if at all, and see that same is deducted off face of bill.

CHAPTER 24—INTEREST

Interest must not be confused with Discount. A good many bookkeepers put the two under the same heading as "Interest and Discount." Discount, as we have explained, is a cash allowance made at the time of payment of a bill. Interest is money paid for the use of money, such as when borrowing from banks or from personal accommodations. The use of money is always worth something, and the payment made for this use, is known as "Interest."

Interest is usually figured at one rate, 6% per annum, although it varies frequently. Banks sometimes charge a little less and sometimes a little more, merchants again, when particularly pressed for money, are often called to pay a little extra, but in the general business sense of the term, 6% per annum is the rate. This is equivalent to one-half ($\frac{1}{2}$) of 1% each month, or 50c. on each \$100.00 per month.

A concern sometimes wishes to pay a bill before it is due (and by being due, we mean the final date on which a bill should be paid according to terms sold), but they are entitled to some concession for giving the money to the creditor ahead of time, so they are usually allowed to deduct interest at the rate of 6% per annum for the number of days that they have paid ahead. For example, a bill is due on May 10th, we will say, for \$100.00 less 2%. On May 10th, \$98.00 should be sent in payment, but the customer wishes to pay this on the 10th of April,

30 days, or roughly speaking, one month before he need pay same, and therefore feels he is entitled to $\frac{1}{2}$ of 1%, which in this case would be exactly 49c, and he would send his check for \$97.51. Of course, the creditor is not bound to accept this, and perhaps he may insist on the customer paying \$98.00 when the bill is due in preference, but usually a concern is satisfied to allow the interest and take the money as soon as they can get it.

The correct entry to make in a case like this is to enter in Cash Book on Receipt Page, \$97.51: \$2.00 and \$99.51 respectively in the first three columns; then an entry in the Journal for the 49c Interest: "Interest" a/c to "Name of Customer)," debiting the Interest Acct. with 49c and crediting the customer's account, which will now balance.

Some houses, however, add interest to the discount, making the Cash Book entries \$97.51, \$2.49 and \$100.00, respectively, but although not wrong, it is not precisely good bookkeeping.

CHAPTER 25—SUNDRY FORMS USED

There are certain forms used in business which a bookkeeper must understand. We refer to what are known as "promissory notes" (frequently called "notes" only), "drafts," and "trade acceptances." A "promissory note" is given when a payment is intended to be made for some purpose (usually for a loan, but can be used for any purpose for that

matter), at a later date. It is a regular printed form, which reads "On such a date, I or we, promise to pay so much, etc."

This note should be filled in by the party who has promised to pay and signed by him at the foot. There is a space for the date, amount, to whom payable, and where same will be paid, usually at a bank. This is the sort of note that is filled up for individual accommodations. But when a concern borrows money from a bank, they usually write on the face of the note that same is payable to "ourselves," not to the Bank, and sign it at foot, and also "endorse it" at back, which means to write their own name on the back of the note. By own name, is meant the business style under which the house is doing business, and carrying its bank account in.

We now come to "drafts." A draft is very similar to a note, except it reads slightly differently and is most frequently used when a customer is hard to collect from, and as a sort of final step, before proceeding to law to collect the money, a concern will "draw" for the amount. A draft should be filled in by the party who wishes to collect the money and while there is more than one style, the usual form is this: the date, amount and when same should be paid, usually "on demand" or "at sight." A draft is signed at foot by the party drawing (creditor), and the name and address of the party to pay, should be filled in in a space provided at the left of the draft. The usual method is to hand this draft to the bankers of the drawer, and

they send this to their nearest agent in the location where the drawee is, who presents it to him for acceptance. If the drawee accepts same without further trouble, he will endorse his name or the name of his firm on the back of the draft, giving his bank where the money can be collected, or will pay same on the spot.

A "trade acceptance" is very similar to a draft, there being a printed form made for this purpose. The wording is slightly different but is so clear on the form that it can be easily filled in by anybody who understands making out a note or a draft. Anyway, a bank is always agreeable and anxious to show their clients how to fill out these forms.

A "trade acceptance" should be used in payment for goods sold, which is where the word "trade" applies, and is given by a customer to a creditor for various reasons; it enables a creditor to take this "trade acceptance" to his bank a considerable time before he would be entitled to the money from his customer, and discount same, or in other words, borrow money on it by paying the bank interest. And if a concern has a number of these trade acceptances and they can borrow money on them, they can turn this money over perhaps several times, and make considerably more than the interest costs them.

A "trade acceptance" is sometimes given when an account is due but the party is not able to pay at the moment; but the creditor takes the paper as it binds the customer to meet the bill at a certain stated date, which is somewhat more binding than a verbal promise to pay later.

CHAPTER 26—INVENTORY

At certain periods, usually once every year, an Inventory is taken of the stock of merchandise of all description, fixtures and machinery, on hand or located anywhere, belonging to a business house. Taking of the inventory is not the bookkeeper's work, which is usually done by people who are in the habit of handling the articles, and can put distinctive price marks or costs on same. The bookkeeper however, is expected usually to understand and figure up the values and arrive at a total of same. In a good many cases, no inventory is made of the machinery, fixtures or plant, but a certain percentage is deducted from the ledger for what is known as "depreciation." How this is done, is explained in the chapter on "closing books."

CHAPTER 27—OPENING A NEW SET OF BOOKS

A set of books once opened, continues indefinitely till a business is wound up and the bookkeeper therefore has only to continue to carry on the previous methods; but starting a set of books for a new concern entirely, where there are no previous entries of any description, and nothing to follow up, is different. Starting a set of books is the simplest thing in the world.

In commencing a new business, the first thing a

concern does is to provide a cash capital which in this instance, we will presume, is \$10,000.00. The books of course have to be purchased first, and the very first entry will go in the Journal. Presuming that the money, \$10,000.00 has been just deposited in the bank, the entry in the Journal reads as follows: in the debit column General Ledger, \$10,000.00 and the same amount in the credit column under the same heading. In the center description space, write "Cash Account Dr. to Capital Account Cr." and below "To Cash deposited for Capital." Debit the "Cash" account in the General Ledger with the \$10,000.00 and credit the Capital account in the same ledger with the same amount. It is advisable to write the headings in the General Ledger on the different pages of the various accounts that will be used. Turn to the Cash Book on the first page of receipts, enter on the first line, under this date, "Cash Deposit" \$10,000.00 both in the Net column and the General Ledger column. The books are now open, and there is nothing more to be done than to go ahead, buy and sell, and manufacture, and make all the regular entries as they arise.

It happens sometimes that a new concern starting, will, in addition to putting up money as stated above, buy some ready fixtures, machinery and merchandise: in which case, after the bookkeeper gets the value or cost of same, he will make a Journal entry to this effect "Machinery, fixtures, etc., Dr. to Capital Account Cr." or "Mdse. Purchased to Capital Account Cr." putting the amount in both debit and credit columns of the Journal, and posting same

under its proper heading to the account in the General Ledger. In such an event where a house has invested Cash, Merchandise and Fixtures, all the items will appear in the Capital account, and will make the total Investment or Capital of the concern.

CHAPTER 28—CLOSING OF BOOKS AT STOCK-TAKING

Stock-taking is another name for taking an inventory of merchandise on hand. In other words, counting up the stock. We have already mentioned about the stock being inventoried, but now the books have to be closed finally for the year (or whatever period it may be), and a final balance struck in the books to determine the gains or losses and to close the books. We know the value of the stock, which in this case, we will say is \$20,000.00 for leather goods and \$10,000.00 Metal Parts and Trimmings. Instead of inventorying the Machinery and Fixtures, we will presume this house will follow the custom of a good many other houses and “depreciate” same by 10%.

First of all, the trial balance must be taken in the usual manner.

At time of stock-taking, we have to go through the ledger to charge off any debts that may be worthless to carry. Bad debts are made from accounts going out of business, going into bankruptcy or similar causes. Usually in bankruptcy, there is a possibility of getting a part payment when the af-

fairs of the bankrupt are settled, so it is proper for the bookkeeper to consult with someone in higher authority after making out his list of bad debts, as to which should be charged off to loss. Having determined that, an entry is made in the Journal as follows: "Profit & Loss Account" Dr. to—and then list the names individually of each account and put the amount in the credit column, "Accounts Receivable" of the Journal, and the total of all these amounts in the debit column "General Ledger" in the Journal. Now post all these items to the customers' ledger individually. If there has not been so far a Profit & Loss Account opened in the General Ledger, start a page with this heading and debit this item from the Journal. Foot the Journal both sides again and credit the "Accounts Receivable" account in the General Ledger with the footing. This is exactly what has been instructed previously in handling the Journal at the end of each month. Open an account in the General Ledger (unless there was one previously opened), and head it "Trading Account."

We now come to a little entry which is very important and should be done very carefully. As we are balancing the books for the year so as to get the exact gains or losses, it is necessary that nothing should be carried forward in the new year that is not worth its book face value. At this moment, our book shows that we have thousands of dollars owing to us and by us. As we are in the habit of giving discounts to our customers when they pay **their** bills, and taking discounts when we pay **our** bills, it is apparent that the figures on the book

do not represent the actual net value of the accounts that we expect to collect, as these figures on the book are Gross, as distinguished from Net figures.

We have to find out first how much discount our customers will deduct when all the bills owing, are paid, and how much discount we shall deduct when we pay all the bills we owe. Now if the discounts on each account were the same in every case, say 2%, all we would have to do is to figure out what 2% amounts to on the total, but certainly we shall take different discounts from the different concerns that we owe money to, according to their terms, and it is possible that we may be in the habit ourselves of giving customers different rates of discount. The most precise way is to take each account individually and figure what the discount on each account would be and get our totals that way. But some houses average the discounts and get their result thus: we will say that we give some people 2% and some 3% discount, so by taking $2\frac{1}{2}\%$ off the total of the outstanding accounts, we would get a reasonably correct figure; the same principle would apply to the accounts payable, but here the bookkeeper must be guided by previous practice of the house. Anyway, the figures must be arrived at either by the one method or another. We will tell you what entry to make in a minute.

Another figure to be determined at time of closing books before making the closing entries, is the value of the unexpired insurance. All houses carry policies for insurance, on their stock and fixtures, and they pay for this what is known as premiums, these premiums being usually paid yearly in ad-

vance. Policies being taken at various times during the year, have usually not expired at the time of stock-taking, so that a proportionate value of the premium for the time not yet elapsed, has to be figured, because it has a value as belonging to the ensuing or following year. There may be such items also as rent, which is paid in advance, that is, up to a date beyond the time of inventory. If so, such figure must be calculated. All commissions that are due to any salesman must be figured up before the closing of books. (These last, of course should be done first of all and entered into the ledger, first through the Journal in the manner we have described earlier in this book.) Also figure if there is any pay due to the help, because if the date of stock-taking falls between pay days, the amount that the help has earned to that moment, is actually owed by the house and has to be taken in consideration as a "liability" or debt. Of course, it is not necessary to make up the pay rolls (as though the help were going to be paid), in the pay roll book, but the figure, either exact or approximate, must be determined. All these figures must be arrived at before the entries are made in the Journal, and although in some concerns, they take these items roughly, in houses where they wish to be very particular, they try to be as exact with these figures as they can.

Having calculated these figures, the bookkeeper acts as follows: with the Journal and Private Ledger open for entry. The entries are made in the Journal as follows: all of the entries whether "debits" or "credits" being written in the columns

headed "General Ledger;" "Mdse. Leather Purchase Account" to "Inventory Account," entering the amount of the **last previous Inventory** in the "debit" and "credit" columns. This figure will be found in the General Ledger under the account headed "Inventory" (of leather goods). The next Journal entry should be "Mdse. Purchases Metal Parts and Trimming" to "Inventory," entering in both General Ledger columns, the amount of the **previous last Inventory** figure from the Inventory (metal parts, etc.) page in the General Ledger. If these items are now posted the right way, the bookkeeper will find that the inventory account in the General Ledger, is in perfect balance, the two sides being equal. He should then foot these two columns in ink and draw red lines across the page in the ledger columns to show the whole account is ruled off for that moment.

The next entry to be made in the Journal is as follows: "Inventory Leather Goods" to "Mdse. Purchases Leather Goods," entering in the two General Ledger columns, "debit" and "credit," the value of the leather goods of the **new** Inventory. Below that, enter in the Journal, "Inventory Metal Parts and Trimming" to "Purchases Metal Parts and Trimming," entering the amount of the **new** Inventory figure just taken. These should be posted right away and the figures that are now under the Inventory account in the ledger, remain as an open balance, till the next stock-taking.

The next entry in the Journal follows: "Trading Account" to "Mdse. Leather," entering here, in debit and credit columns, the difference between the

totals of the debit and credit columns of the latter account (from the General Ledger) whatever it may be, and a similar entry is made: "Trading Account" to "Metal Parts and Trimming," entering in the debit and credit columns of the Journal, the difference between the footing of the debit and credit columns of the metal parts, etc., account from the General Ledger.

Now open the Private Ledger to Wages account, if you have on your list, the amount of wages due, that we referred to earlier in this chapter. If you have, make a Journal entry like this: "Wages account" to "Wages account," and enter the amount in both debit and credit columns of the Journal. Post all the items so far with the exception of the **credit** item of the Wages account, but after the debit item of the Wages account is posted, foot up in pencil the Wages account and get the total, which should naturally be a debit total only. Now, before you make other entries, make another Journal entry, "Trading Account" to "Wages Account." Enter here the figure from the Wages account of the General Ledger in both Journal columns, and post these items. You will now find the Wages account in balance. Put the totals down in ink and rule off the same as instructed to rule off the Inventory account. After the account is ruled off, go back a little in your Journal and enter the **credit Wages** item, that has not been posted, to the Wages account **below** where it is ruled off, and put for explanation in the space before the amount, "Accrued Wages." So far now, everything has been posted that has been entered in the Journal.

We now make an entry in the Journal, "Discount Account" to "Discount Account," entering in both debit and credit General Ledger columns the amount of discount that we have just previously calculated will be deducted by our customers in paying their bills. Post the debit item only. Let the credit posting wait a minute. Make another Journal entry, "Discount Account" to "Discount Account" and enter here in both debit and credit General Ledger columns, the amount of discount that has just previously been figured to be deducted by the house when paying **their** bills. Of this entry, just post to the General Ledger the credit item only, leaving the debit item unposted for a minute. Now foot up the discount account in the ledger in pencil and when the balance between the two sides is figured, enter this amount in the two columns of the Journal (remember we are referring entirely to General Ledger columns in all these Journal entries), and make an entry in the description space; if the debit column of the discount is more than the credit column, let the Journal entry read "Trading Account" to "Discount Account," but if the credit side of the ledger should be more, let same read "Discount Account" to "Trading Account." Post these last entries and you will now find that the discount account in the ledger is an exact balance, so that same should be ruled off across the page.

Now make a Journal entry as follows: "Trading Account" to "Light and Power Account" debiting the former with the balance shown in the General Ledger under "Light and Power" and crediting the latter account with the same figure. This will close

the Light and Power Account, which should be now ruled off in balance.

Now there were two entries made in the Journal a minute ago which were not posted. Post these now. You will find they both go to the discount account in the ledger, one a debit the other a credit, and should be entered just below where the account has just been ruled off. The next two Journal entries should read: "Mdse. Sales Account" to "Trading Account," entering in the Journal, the balance that appears now in the ledger under the headings of "Merchandise Sales and Cash Sales;" post these. If these are two separate accounts in the General Ledger, make a Journal entry for each.

Now turn to the Trading Account and foot same; it will be found in all probability that the credit column exceeds the debit column and the difference represents what is known as "Gross Profit" that is to say, the profit between the actual cost and the selling price of the Merchandise Sold. Should the debit column exceed the credit column, the difference would indicate a Gross Loss, instead of profit. The student should study this out when he gets to this step, very carefully and should convince himself of the meaning of this account.

This we repeat, is gross, **not net**, profit as all the expenses for running the business have now to be deducted. We now make the following Journal entries, "Trading Account" to "Profit and Loss Account," entering in both Journal columns, debit and credit, the balance shown on the Trading Account sheet, which now, when posted, should balance exactly and should be ruled off. Should the trading

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account show an excess **debit** balance, the Journal entry must be reversed, "Profit and Loss Account" to "Trading Account."

You have on record a certain percentage (or figure) for depreciation of machinery and fixtures. Take this figure and make an entry in the Journal as follows; entering the amount in the columns: "To depreciation of machinery and fixtures," debiting Profit & Loss and crediting Machinery & Fixtures." The Machinery and Fixtures account will still show of course a debit balance, and it is the correct thing to rule off the account and bring this balance forward below the lines, in the debit column, as the balance for the ensuing period.

Now make the following entry in the Journal: "Profit & Loss" Dr to, then list these accounts one below the other in the explanation column, Commission Account, General Expense, Express and Freight, Insurance, Interest, Rent, Salaries, Taxes" and any other accounts that you may have, which do not represent actual Assets or Liabilities. By Assets, we mean the Cash Accounts, Accounts Receivable, Machinery and Fixtures, Bills Receivable, and similar accounts which are actual assets; also Accounts Payable, Bills Payable, etc., which are actual liabilities. The entries that we are now making in the Journal are expenses of doing business in some way or other. Enter in the Journal in both debit and credit columns, against the name of the account, the balance of each account as it appears in the General Ledger. Be sure you omit no accounts, and then **credit** everyone of these accounts in the ledger from the Journal, writing in the ex-

planation space, "By Profit & Loss." **Debit** every-one of these amounts to the Profit & Loss account, entering in the explanation column, the name of the account, and the amount. We are now ready to make the final entry to determine the **net** "profit" or "loss," but before doing so, the bookkeeper should run right through his General Ledger from beginning to end, to see that all the accounts except those representing Assets or Liabilities, Capital and Profit and Loss, are exactly balanced, on both sides of the Ledger pages. The only accounts at this moment that should not be in balance are Cash Account, Machinery and Fixtures Account, Accounts Receivable, Accounts Payable, Inventory Account, Bills Receivable, Bills Payable, any individual salesman account to whom a balance of commission might be owing, or who might owe the house money from drawing more than earned, Petty Cash Account, which actually represents the cash in the house, and possibly some sundry items which vary according to different businesses, such as small loans and exchanges.

All these accounts should be treated, as we suggested just now treating Machinery and Fixtures. They should be ruled off, and the balance brought down immediately under the ruling on the debit or credit side, and all the other accounts that are in exact balance should be ruled off entirely.

Now foot up the Profit and Loss account; if the debit column exceeds the credit, the difference will represent the loss sustained since the last inventory. If the credit exceeds the debit, the difference represents the net gain in that period. Presuming that

there is a gain, a Journal entry must be made as follows: "Profit and Loss" Account Dr to "Capital Account Cr," entering the difference between the two columns of the Profit and Loss Ledger Account, in the Journal, and debiting Profit and Loss account which should balance now exactly to the penny, and crediting Capital Account. The total footing of the Capital account will now show the **actual Net Worth** of the business; that is to say, the Net Worth from last Inventory, added to the profit that has just been figured since then (less any withdrawals of capital or anticipated profits, since the previous stocktaking). The books now are all closed and completed, but to prove same, the bookkeeper will go through the General Ledger from the first page to the last, putting all the debit items in one column, and totalling same, and all the credit items in another column, and totalling same, and the two columns must agree to the penny. If they do not, there has been a mistake made some way or other since the making of the last Trial Balance, (which of course it is presumed was proven exact,) and the making of all these entries referred to in this chapter, and must be located at once.

Now make two columns of figures: The one of the Assets (or Debit Balances of the Private Ledger): the other of the Liabilities (or Credit Balances of the Private Ledger), omitting entirely the Capital Account Balance. The Difference between the footings of the two columns will equal the balance of the Capital Account Page. This is called the **FINANCIAL STATEMENT**.



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